

**ASSEMBLY BILL**

**No. 1422**

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**Introduced by Assembly Member Bass**

February 27, 2009

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An act to add and repeal Chapter 7 (commencing with Section 33700) to Part 1 of Division 24 of the Health and Safety Code, relating to redevelopment.

LEGISLATIVE COUNSEL'S DIGEST

AB 1422, as introduced, Bass. Redevelopment: affordable housing.

The Community Redevelopment Law requires a redevelopment agency to deposit not less than 20% of all taxes the agency receives in a Low and Moderate Income Housing Fund and allocate those funds for the purposes of increasing, improving, and preserving the community's supply of low- and moderate-income housing available at affordable housing cost, as defined, to persons and families of low or moderate income, lower income households, very low income households, and extremely low income households, unless the agency makes specified findings.

This bill would authorize a redevelopment agency, until January 1, 2013, to expend any money that is not held in the fund to (1) purchase, assume, or refinance, or assist lenders or nonprofit or for-profit developers in purchasing, assuming, or refinancing, subprime or nontraditional mortgages on homes owned by persons meeting a specified income level within its jurisdiction, or make loans to those homeowners and (2) purchase, or assist lenders or nonprofit or for-profit developers in purchasing, homes within its jurisdiction that have been foreclosed and are vacant and sell those homes, without regard to income.

The bill would require that funds be expended pursuant to these provisions in a manner that preserves the exemption from federal and state income taxes of interest on the bonds or notes issued by the agency under the Community Redevelopment Law.

Vote: majority. Appropriation: no. Fiscal committee: no.  
State-mandated local program: no.

*The people of the State of California do enact as follows:*

SECTION 1. Chapter 7 (commencing with Section 33700) is added to Part 1 of Division 24 of the Health and Safety Code, to read:

CHAPTER 7. HOME MORTGAGE LOANS

33700. The Legislature finds and hereby declares all of the following:

(a) The end of the housing boom in 2005 has led to declining housing prices and the reduced availability of mortgage credit.

(b) As housing prices fall, delinquencies and foreclosures on subprime and nontraditional mortgages have increased to historically high levels. Lenders with exposure to subprime and nontraditional mortgage losses have tightened their lending standards. Consequently, homeowners with subprime and nontraditional mortgages are having difficulty refinancing into more affordable loans.

(c) With many subprime and nontraditional mortgages facing their first interest reset during 2008 and 2009, mortgage foreclosures will increase significantly and, along with falling housing prices, may overwhelm the ability of mortgage markets to restructure or refinance loans for creditworthy borrowers.

(d) Home foreclosures impose significant costs not only on borrowers and lenders, but also on local governments, neighboring homeowners, and others with a financial stake in nearby properties. This is particularly true of subprime and nontraditional mortgage foreclosures because they tend to be concentrated geographically. The effect of multiple foreclosures in limited geographic areas can cause declines in property values, accelerating the decline of entire neighborhoods. Increased crime and vandalism, lack of proper

1 maintenance, and the spread of blight are other consequences of  
2 concentrated foreclosures in limited geographic areas.

3 (e) Decent housing for all of the people of this state is vital to  
4 the state's future peace and prosperity.

5 (f) A fundamental purpose of redevelopment is to expand the  
6 supply of low-income and moderate-income housing.

7 (g) In order to more effectively respond to the current crisis in  
8 subprime and nontraditional mortgage foreclosures, redevelopment  
9 agencies should be given greater flexibility on a temporary basis  
10 to do all of the following:

11 (1) Acquire, assume, or refinance existing subprime and  
12 nontraditional mortgages in default or at risk of default, or make  
13 loans to eligible homeowners faced with foreclosure.

14 (2) Acquire and then maintain, resell, or rent foreclosed homes.

15 33701. For purposes of this chapter, the following terms have  
16 the following meanings, unless the context clearly requires  
17 otherwise:

18 (a) "Eligible homeowner" means the trustor of a subprime or  
19 nontraditional mortgage who occupies a home encumbered by the  
20 subprime or nontraditional mortgage as his or her principal place  
21 of residence, if either of the following applies:

22 (1) The obligation secured by the subprime or nontraditional  
23 mortgage has a payment that is 30 days or more past due or has a  
24 scheduled interest rate increase that will create a financial hardship  
25 likely to produce a default.

26 (2) A notice of default has been recorded against the obligation  
27 secured by the subprime or nontraditional mortgage pursuant to  
28 Section 2924 of the Civil Code.

29 (b) The "fund" is the Low and Moderate Income Housing Fund  
30 established pursuant to Section 33334.3.

31 (c) "Nontraditional mortgage" means a consumer loan that  
32 allows the borrower to defer payment of principal and, under  
33 certain circumstances, interest, as set forth in the "Interagency  
34 Guidance on Nontraditional Mortgage Product Risks" (71 Fed.  
35 Reg. 58609 (Oct. 4, 2006)).

36 (d) (1) "Subprime mortgage" means a deed of trust securing a  
37 loan that was originated on or after January 1, 2002, was issued  
38 for the purchase of a single-family home, residential condominium,  
39 or townhome, but not a mobilehome, and meets any of the  
40 following conditions:

1 (A) Has an annual percentage rate that is more than one of the  
2 following:

3 (i) For a senior loan, 3 percent, plus the yield on United States  
4 Treasury notes with comparable maturities.

5 (ii) For a subordinate loan, 5 percent, plus the yield on United  
6 States Treasury notes with comparable maturities.

7 (B) Has interest-only payments, or an adjustable rate that may  
8 lead to negative amortization.

9 (2) “Subprime mortgage” does not include a subordinate home  
10 equity line of credit or a reverse mortgage.

11 33702. (a) The agency may expend any money that is not held  
12 in the fund to purchase, assume, or refinance, or assist lenders or  
13 nonprofit or for-profit developers in purchasing, assuming, or  
14 refinancing, subprime or nontraditional mortgages on homes owned  
15 by eligible homeowners who reside within its jurisdiction, or make  
16 loans to those eligible homeowners, if the combined annual income  
17 of the members of the eligible homeowner’s household does not  
18 exceed 150 percent of area median income, adjusted for family  
19 size by the department in accordance with adjustment factors  
20 adopted and amended from time to time.

21 (b) The amount of assistance provided under subdivision (a)  
22 for any single eligible homeowner shall not exceed an amount  
23 equal to the loan to value ratio applied by the Federal Housing  
24 Administration for an insured loan for the applicable geographic  
25 area, multiplied by the current value of the home.

26 (c) The agency may also expend money that is not held in the  
27 fund to provide mortgage or credit counseling services to existing  
28 or prospective homeowners who qualify for assistance under  
29 subdivision (a).

30 33703. (a) The agency may expend any money that is not held  
31 in the fund to purchase, or assist lenders or nonprofit or for-profit  
32 developers in purchasing, homes within its jurisdiction that have  
33 been foreclosed and are vacant, for sale to any purchaser, regardless  
34 of income.

35 (b) Homes purchased under this section may be managed,  
36 maintained, and rented prior to resale.

37 33704. Funds shall be expended pursuant to this chapter in a  
38 manner that preserves the exemption from federal and state income  
39 taxes of interest on the bonds or notes issued by the agency under  
40 this division, if applicable.

1     33705. This chapter shall apply notwithstanding any other  
2 provision of this division.

3     33706. Consistent with this chapter, the agency may adopt  
4 local criteria governing the use of funds and provision of other  
5 assistance authorized under this chapter, including, but not limited  
6 to, limiting assistance to defined neighborhoods or a geographic  
7 area, or targeting specific income categories.

8     33707. This chapter shall remain in effect only until January  
9 1, 2013, and as of that date is repealed, unless a later enacted  
10 statute, that is enacted before January 1, 2013, deletes or extends  
11 that date.